

# Accession to the European Union in the Field of Agriculture - Slovenia's Experience

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## SUMMARY

The paper presents Slovenia's experience with the new European Union (EU) enlargement process in the area of agriculture. The pre-accession process incorporates the harmonisation of legislation, institution building, adjustment of the agricultural policy, accession negotiations, and adjustment and restructuring of agriculture and food-processing industry for the competitive conditions of the EU internal market. The development of agriculture and the agricultural policy in Slovenia have been considerably different from that in the EU. Slovenia, therefore, has to undergo a thorough agricultural policy reform, marked particularly by the introduction of direct payments and other comparable mechanisms of the Common Agricultural Policy (CAP). The reform is supported by the new Agriculture Act, which provides a basis for implementing comparable agricultural policy. The Agency for Agricultural Markets and Rural Development has been established as an organisation responsible for implementation of the CAP measures. During the negotiating process Slovenia has so far carried out a thorough two-year screening of legislation and submitted its negotiating position. In the position, Slovenia expressed its readiness to adopt the *acquis*, it requested some minor permanent or temporary derogation from the *acquis*, and required to have a status equal to that of the present Member States with regard to the distribution of budgetary funds (in particular direct payments). Reforms and the negotiating process have over the period been supported by the agricultural economic research, based on a comparative analysis of agriculture and agricultural policy, and the model-based and sectoral estimation of effects of accession. Accession will be favourable for the Slovenian agriculture only in case, which is politically less realistic, that it will be treated equally to the present Member States and that it achieves equal level of competitiveness of agriculture and food-processing industry.

Key words: agriculture, European Union, negotiations, Slovenia

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## INTRODUCTION

The Common Agricultural Policy (CAP) of the European Union (EU) is an administratively and functionally complex system of policy operations made by decision-makers and extensive public administration. By adopting the CAP, only a small part of competencies for implementing agricultural policy will remain at the state level. The market price policy - as its main do-

main - will fall completely under the authority of the common EU institutions. The Member States maintain greater influence on the structural policy and can fully decide on the issues such as decision-making, financing and implementing of indirect supports to agriculture (general services for agriculture, social and tax policy etc.) Because of the present regulation of this

area and constant change of the CAP itself Slovenia's accession to the CAP is particularly difficult. What will be the CAP to which Slovenia will accede? Which model of agricultural development should Slovenia follow? How should it accede, which programmes and measures should it consider as priority? These are the questions to which the Slovenian policy has to know the answer to, unless it wants agriculture to become a bottleneck of the whole accession process. The approach will be successful only if based on a thorough reform of the agricultural policy, following the European patterns and programmes. The changes the Slovenian public administration is facing are greater than those caused by its independence and transition. The transition did not require thorough change of legislation, which will, on the other hand, be the main characteristic of the adoption of the *acquis communautaire* - the legal order of the European Union.

In short, the extensiveness of the process of Slovenia's accession to the EU in the area of agriculture can be understood as a combination of the following tasks:

- harmonising with the *acquis*;
- providing an institutional capacity to implement the Common Agricultural Policy;
- preparing and conducting of preaccession negotiations;
- adapting and restructuring of agriculture and agro-food industry to the changed conditions after accession;

along with completing of the transition process and, first of all, creating and implementing a development-oriented agricultural policy (agricultural policy reform).

Fulfilling of these tasks will be a simultaneous political and economic process. The paper tries to outline this process and present some of the experience gained so far. The paper starts with an overview of different concepts and starting points of the Slovenian (and before that Yugoslav) agricultural policy in comparison with the CAP at the beginning of transition, and subsequent gradual implementation of the transitional agricultural policy, which was increasingly taking on the tasks of adjustment of agricultural policy to the forms and contents of the CAP. Further on, we describe shortly the negotiations, which have been particularly demanding in the chapter on agriculture because of the amount of the *acquis* in this area and the involved budgetary inflows. This is followed by an outline of the phases of adjustment as they were set forth by the

Slovenian agricultural policy. The paper is concluded by presenting the research work completed in the area of agricultural economics, which supports the process of harmonisation and negotiations.

## THE EU AND SLOVENIA'S AGRICULTURAL POLICY AS A FRAMEWORK FOR THE DEVELOPMENT OF AGRICULTURE

### Selected starting points

In the past, the development opportunities of the Slovenian agriculture differed completely from the development opportunities of agriculture in the EU. One could say that two diametrically opposite concepts of agricultural policy (Table 1) marked the development.

At the time when the western European countries were gradually introducing their highly protective model of the CAP based on political and economic importance of family farms and price supports, the Yugoslav model of agricultural policy was hindering the development of traditional private agriculture. Contrary to the development of agriculture in the EU countries, where the policy and highly developed farming technologies have created larger and more specialised farms, the Slovenian agriculture has been characterised by small-scale agricultural households. The Slovenian farms are on average four times smaller than farms in the EU and the effects of this unfavourable farm size structure are manifested in:

- low level of professionalism in farming and a high share of part-time farms,
- lower general productivity - compared to the EU countries, four times more full-time workers are employed per hectare of farmland,
- lower average yields per unit of land or animal,
- unbalanced production structure of agriculture, since farmers, due to income attractiveness, orient their production mainly towards milk and beef production with the dual-purpose breed races.

### The agricultural policy in the EU and Slovenia at the beginning of the accession process

The agricultural policies from the past affected the selection of measures and objectives in Slovenia's current policy. In the early 90s, many elements of the previous policy framework remained largely unchanged in the new system. With measures and objectives often remaining unchanged, the disintegration of the former

Table 1 Time horizon of the development of agricultural policy in the European Union and Slovenia

Year	EEC/EC/EU	Slovenia
1945	<i>Importance of agriculture in post-war reconstruction</i> post-war reconstruction Marshall Plan Measures to increase agricultural production	<i>Revolutionary changes and recovered development</i> 1 <sup>st</sup> agricultural reform attempts of collectivisation of agriculture post-war reconstruction
1950	Increasing of national agricultural protectionism Agricultural laws introducing income parity as a goal of agricultural policy	2 <sup>nd</sup> agricultural reform (land maximum) formation of a social sector in agriculture all authorities in agriculture held by federal bodies
1955	growth in agricultural production <i>Emergence of CAP</i> Formation of EEC – Rome Treaty (goals of agricultural policy) Stresa Conference (mechanism of agric. policy)	revitalisation and prosperity of co-operative activities, development of food industry formation of agricultural extension service growth in agricultural production
1960	intensive structural changes, increase in intensity and farm size	<i>“Socialist agriculture”</i> prohibition of private ownership of tractors and other large machinery dissolving of the co-operative system
1965	Agreement on price levels Formation of FEOGA (budgetary concept of CAP) adoption of common market organisations for all main products	expanding of state sector (forced parcels consolidation, investment supports) stagnation of agricultural production strong depopulation of some rural areas
1970	<i>Price supports and surpluses</i> increase in production intensive structural changes increasing of price supports expanding of protective measures	<i>A more liberal attitude to farmers and development</i> change of agricultural policy - a more liberal attitude to farmers, revival of co-operative activity, having a new role of promoting private agricultural production development of a special “republic” agricultural policy in the structural area
1975	EU turns the second largest exporter of food from a previous importer of food the sales of surpluses in the world market substantially raise the budgetary expenses due to increased export supports	»campaign« for wheat specialisation and new investment cycles in private (and social) agriculture growth in agricultural production restraining of depopulation
1980	price supports keep prices at the world levels, the agricultural part of the budget remains uncontrollable	formation of large regional business systems for production, processing and trade strong subsidising of social agriculture by subsidising interest rates
	<i>Reforms</i> the introduction of milk quotas	<i>Transition crisis</i> drop in prices
1985	Increased surpluses (wheat, meat) »stabilisators« continued budgetary crisis formulation of the structural (rural development) policy	stagnation of yields negative effects of poor macroeconomic situation (inflation, exchange rate policy) formation of the Slovenian Farmer' Association and the “milk strike” - fixed prices of milk
1990	MacSharry's reform – introduction of compensatory payments, accompanying measures (environmental programme) Uruguay round of GATT and agreement on gradual liberalisation of agricultural trade Stabilisation of the markets, decrease of surpluses start of preparations for the next enlargement and the new round of WTO negotiations	<i>Independent agricultural policy</i> Agriculture as a social analgesic of transition changes Strategy of development of the Slovenian agriculture drop in prices, farmers' protests and introduction of import levies International trade agreements (GATT, EU, Cefta, ...) beginning of preaccession harmonisation
2000	AGENDA reform - further decrease of institutional prices and increase of direct payments	start of accession negotiations reform of agricultural policy

Source: Erjavec, Rednak, Volk, 1997.

Yugoslavia and the establishment of a democracy-based political system brought about a radical change in the administration of policies and the execution of policy instruments. Within a short period of time, all state control and development functions had to be established. In addition, the change in systems required that new administrators and politicians be trained qualified to adjust and implement agricultural policy measures. It should also be noted that these sectoral

changes were only a small element in the creation of a new state and an economy-wide shift towards a market economy. Agricultural reform was not a key priority in transition. Finally, the economy-wide changes in Slovenia were complicated by the international integration process underway at the same time. The international process included the ratification of numerous trade agreements, of which the CEFTA agreement was perhaps most important in the field of agriculture.

Table 2 Comparison of characteristics of agricultural policies in the EU and Slovenia in the mid-90s

	EUROPEAN UNION	SLOVENIA	
<b>MARKET-PRICE POLICY</b>	<b>(exclusively under CAP)</b>		
Market price support			
Administrative regulation of prices		administrative prices	S
	institutional prices		/
Foreign trade measures	customs tariffs, levies	customs tariffs, levies	=
	import quotas	import quotas	=
	export subsidies	export promotion measures	?
Measures in the internal/domestic market	intervention buying-in (sales)	subsidising of interest rates for the purchase and stocks	?
	other forms of withdrawal from the market, incentives for domestic food and non-food consumption		/
Administrative restrictions on production (supply management measures)	quotas; set-aside		/
	mandatory targeted processing		/
Direct payments related to production	per head and per ha payments	per head and per ha payments	?
		payments per kg	S
		input subsidies	S
<b>STRUCTURAL POLICY</b>	<b>(CAP co-financing measures)</b>		
Rural development measures			
Less favoured areas	compensatory allowances	direct payments (per head)	?
		payments per kg	/
Agricultural environmental measures	per ha, or per head payments		/?
Early retirement scheme	payments		/
Afforestation	payments		/
Investments support	general support, special support	general support, special support	?
Processing, marketing and organisation	investment support	limited investment support to	/?
	other programmes	processing industry	
Regional development	special programmes	special rural dev. measures	?

The symbols:

/ the measure not implemented in Slovenia;

S the measure not implemented in the EU;

? attempts of similar measures already implemented or are being implemented now in Slovenia

= comparable measures

Source: Erjavec, Rednak, Volk, 1997

The overall transition period can be divided into four major stages:

- 1990-1993: Draft strategic document that provided the basic orientation and goals of Slovenia's future agricultural policy (Strategy of Slovene Agriculture; MAFF, 1993);
- 1993-1995: Formation of the current key instruments of the agricultural policy (alongside the preservation of the elements of the former agricultural policy), in particular foreign trade protection, and administrative regulation of some main agricultural markets (wheat, sugar, milk).
- 1995-1997: Growing trade integration with Europe, negotiations for the Association Agreement with the EU and negotiations towards CEFTA membership. Gradual re-instrumentation of policies towards THE CAP-like measures.
- 1998-2000: Beginning of the negotiating process towards EU membership, preparation for agricultural policy reform. Existing policy measures failed to achieve their stated objectives. Freer trade resulted in downward pressure on prices and lower agricultural incomes. At the same time, the need to move towards the *acquis communautaire* required speeding-up the policy re-instrumentation process.

The development of agricultural policy after accession has, by setting the objectives, introducing foreign trade protection and shifts in structural policy, followed the basic guidelines of the CAP; however, it was still burdened with the heritage of the past agricultural policy, less systematic and had many functional deficiencies.

As a result of such development, the mid-90s Slovenia's agricultural policy resembled in some areas the EU policy while, at the same time still being far away from it in terms of its integrity and efficiency. The situation presented in Table 2 refers to the mid-90s when Slovenia made, as one may put it, a conscious decision to embark on a path towards accession to the European Union. It shows a kind of a starting position, a turning point in the development of the Slovenian as well as the European Union's agricultural policy. Significant changes have been recorded since then, in the Slovenian agricultural policy in particular, although some important changes also took place within the EU. The EU adopted Agenda 2000 and Slovenia, initiated the discussions and then the implementation of the "agricultural policy reform".

### Agricultural policy reform in Slovenia

The first serious analyses of agricultural policy in Slovenia in the mid-90s (Erjavec, Rednak, Volk, 1997) showed that the success of integration of the Slovenian agriculture with the EU will largely depend on the capacity of the Slovenian agriculture to adapt to the new situation. Efficient adaptation of the Slovenian agriculture is only possible by a thorough reform of the agricultural policy. This is urgent not only for the sake of Slovenia's accession to the European Union, but also due to the present inefficiency of the policy, opening of the Slovenian agricultural products' market on the basis of numerous free trade agreements and, last but not least, due to infrastructural weaknesses and lack of competent staff.

The new reform strategy was formulated in 1998, and adopted by the government in September 1999 in the National Programme of Agricultural Policy Reform. The reform did not foresee any change of general objectives of agricultural policy, which remain largely within the lines defined in the 1993 Strategy of Slovenian Agriculture. The main thrust of the reform is the re-instrumentation of agricultural policies to achieve the stated goals more effectively and more efficiently. This re-instrumentation can be generally described as a shift from market price support to direct payments and from market intervention to structural reform. The re-instrumentation of policies should also facilitate the EU accession process and, as stated in the document, "provide a soft landing onto the EU market". The reform package rests on four major pillars:

- Pillar I, market-price policy. There is a broad consensus that Slovenia will have to keep its markets more open and reduce price supports. Lower prices for agricultural raw materials should enhance Slovenia's competitiveness at home and abroad and allow for cheaper food for the Slovenian consumers. Direct payments should progressively replace price supports as a more transparent, better targeted and more transfer-efficient policy instrument;
- Pillar II addresses the eco-social role of agriculture and introduces a number of new programmes focusing on environmentally-friendly production systems, the preservation of the cultural landscape as well as settlement structures in the marginal areas;

- Pillar III concentrates on structural issues with the prime goal to promote the competitiveness of the Slovenian agriculture and food industry. This component includes a highly diversified range of policies, such as investments in farm structures and food processing; farm consolidation measures; promotion of producer associations; land improvement; and marketing programmes;
- Pillar IV deals with the Slovenian rural development policies, setting them in an EU-compatible framework. The programmes will be based on integrated rural development approach and carried out based on the general concept of regional development in Slovenia.

The implementation of measures set forth by the agricultural policy reform started in some areas back in 1999, and was further enhanced and expanded in 2000. The most important of them was introduction of per hectare payments for arable crops (wheat, oil seeds and sugar beet), hops; widening of supports to cattle breeding (new payments per head for male bovine animals) and ecological payments for fruit growing (integrated production), wine growing (prevention of erosion) and for organic farming. In 2000, the system of supports to producers in the less favoured areas was also changed. By new measures, the Slovenian agricultural policy approached considerably the Common Agricultural Policy, but at the same time this required considerably higher budgetary funds for implementation of agricultural measures. Compared to 1998, the budget allocated to the Ministry of Agriculture, Forestry and Food (MAFF) increased by 30% (by more than EURO 170 million) in 1999, and was expected to rise by further 37% according to the 2000 programme.

Adaptation of the agricultural policy in form and substance to the Common Agricultural Policy is, however, only part of the tasks of the preaccession process. It is, however, a part of accession negotiations the harmonisation process focuses on. Since the accession negotiations are quite specific they are worth explaining in greater detail.

#### ACCESSION NEGOTIATIONS

Slovenia's association process started back in June 1996 when Slovenia applied for membership in the European Union. The individual steps made so far are presented in the Table 3.1 below. The concrete activities started in spring 1998, when the European Union started accession negotiations with five candidate

countries of Central and Eastern Europe (CEEC) and Cyprus. With approval of Agenda 2000, the European Council outlined the financial framework and scope of the Common Agricultural Policy for the financial perspective 2000-2006, and outlined frames for accession of the new candidates in the field of agriculture.

The predominating substance of negotiations is the *acquis*, although other issues are not completely excluded. The issues as duty-free shops and restitution were singled out within the framework of negotiations. The EU membership requires that, apart from rare exceptions when a country is granted transitional periods or derogations from the *acquis*, a country fully adopts the *acquis* and is able to implement it. During negotiations, both sides are trying to reach an agreement on accession which is later enshrined in the Accession Treaty. Politically, negotiations are the central point of the accession process. Negotiations mobilise the administration, force policy-makers to make decisions and help create a public opinion about the accession.

Negotiations have three dimensions: a time horizon (phases of negotiations), working areas and the forms of questions. In the previous EU enlargements as well as in the present process of harmonisation, the following phases of the accession process can be distinguished:

- screening (analytical examination of legislation);
- submission of negotiating positions by a candidate country;
- EU Common Position, requiring additional clarifications;
- more phases of preparation of additional clarifications, also in technical meetings during which unresolved questions are being clarified;
- closing of less problematic chapters;
- final negotiations;
- preparation and ratification of the Accession Treaty.

These negotiations are conducted in 31 chapters. Less problematic chapters are being progressively closed. Slovenia expected to close around 15 chapters by the end of 2000. Some questions relate mostly to the compliance with the *acquis* whereas other refer to the matters such as »money, volume, and eligibility matters«. The chapter on agriculture will be closed among the last, which is due to its extensiveness, finances involved, the organisational changes it will require as well as a strong political connotation.

Table 3 Calendar of Slovenia's accession to the European Union

Together with Hungary, Poland, the Czech Republic, Estonia and Cyprus, Slovenia belongs to the "first wave" candidates for the EU membership. Slovenia's accession to the European Union is currently targeted for the year 2003.

June 1996:	Slovenia applies for EU Membership;
January 1997:	An Interim Association Agreement comes into force, limited to trade relations between Slovenia and the European Union. Ratification of the Europe Agreement is pending upon the resolution of a number of issues, including land property rights;
1998:	Accession negotiations and the screening of the <i>acquis</i> underway;
1999:	Screening of agricultural legislation is completed; Slovenia submits its negotiating position on agriculture (December);
February 2000:	EU ratifies the Europe Agreement; the last of the candidate countries;
May 2000:	Agreement on further Slovenia-EU trade liberalisation within the Europe Agreement is reached;
June 2000:	Negotiations on agriculture formally opened.

Source: OPS, 2000

Table 4 Survey of performed screenings for Slovenia

Date of multilateral (M) / bilateral (B) screening	Area covered
M: 21.-22.09.1998 B: 29.-30.09.1998	7–Agriculture: Arable crops, Fruit and Vegetables
M: 15.10.1998 B: 30.10.1998	7–Agriculture: Veterinary issues
B: 19.03.1999	Additional bilateral screening (establishments, animal waste)
M: 15.-17.12.1998 B: 11.-12.01.1999	7–Agriculture: EAGGF (Guidance, Guarantee, Expenditure), Rural development, Forestry, Agricultural structures
M: 19.02.1999 B: 09.03.1999	7–Agriculture: Beef and veal, Milk and milk products
M: 23.04.1999 B: 03.05.1999	7–Agriculture: Pig meat, Sheep meat and goat meat, Eggs, Poultry, Albumin, Honey
M: 26.-27.04.1999 B: 30.04.1999	7–Agriculture: General (trade mechanisms, quality policy, agri-monetary incidences, state aid, FADN, agricultural statistics, products not covered under Annex II, Miscellaneous)
M: 27., 28., 31.05.1999 B: 17.-18.06.1999	7–Agriculture: Specialised crops (rice, sugar, wine, alcohol, spirits, bananas, floriculture, tobacco, hops, seeds, fibre flax and hemp, silk worms, cotton, olive oil, dried fodder)
M: 13.09.1999 B: 17.09.1999	7–Agriculture: Agenda 2000
M: 12.10.1999 B: 14.10., 21.10., 04.11.1999	7–Agriculture: Phytosanitary issues

Source: Ministry for Agriculture, Forestry and Food

## Screening

Agriculture in the European Union is one of the most administratively regulated areas, with a wide supervision apparatus for protection of consumers. The whole legislation on agriculture and fisheries comprises around 4000 different regulations, which is one-third of the total bulk of the Community legislation. Harmonisation of legislation on agriculture will thus be the most demanding administrative project of accession in this chapter.

Since mid-1998, the Ministry of Agriculture, Forestry and Food of the Republic of Slovenia has been intensely involved in the process of screening of the Slovenian legislation for compliance with the acquis. The table below shows the chronological survey of screenings carried out so far. The last screening, involving phyto-sanitary issues, was completed in November 1999 (Table 3.2). The screening process will continue for the purposes of screening of the Slovenian legislation for compliance with the newly adopted acquis.

Usually around 30 employees of the Ministry and external experts take part in the preparations for screenings. Screening was carried out in individual chapters of the acquis. The candidate countries first received the lists of legislation on this particular area. According to the schedule set out in advance, the countries first had to attend a multilateral screening where all the candidates of the "first wave" took part. During the multilateral screening, the representatives of the Commission presented the acquis in a selected chapter and answered the questions of the candidates. This was followed by bilateral screenings with individual candidates.

Before each bilateral screening Slovenia submitted to the Commission a TAIEX list of legislation, duly completed. At the screenings, the written materials prepared on the basis of questionnaires by the Commission were presented and submitted to the Commission. In the materials submitted, Slovenia presented current status in a specific area, steps of adaptation (policy, legislation, institution building requirements) and indicated the issues open to negotiations.

By means of screenings Slovenia became well acquainted with the acquis, it was able to establish the level of compliance of domestic legislation in each specific area and could project further adjustment steps. Concurrently with the screenings, Slovenia was also

preparing the National Programme for the Adoption of the Acquis by the end of 2002, which was adopted by the Government in May 1999 and submitted to the European Commission. This programme is in fact a timetable for the adoption of individual regulations, setting deadlines for domestic authorities and at the same time assuming commitment towards the EU regarding harmonisation of legislation with the acquis.

In the second half of 1999, the Ministry of Agriculture, Forestry and Food also prepared a seven-year Programme of Rural Development 2000-2006, which was submitted to the Commission in December 1999. On the basis of this Programme, Slovenia is eligible for drawing preaccession assistance from the SAPARD programme, but the programme also contributes to the adjustment of the Slovenian agricultural structural policy to the EU policy and legislation.

## Negotiating position

Preparation of the negotiating position on agriculture, which took place in the second half of 1999, was so far the most important phase of accession negotiations. Apart from the experts from the Ministry of Agriculture, Forestry and Food, external experts also took part in the preparation of the position. The draft position was also presented to and discussed by the non-governmental organisations. In December 1999, the position was adopted by the Government and later on by the relevant National Assembly Committees and was submitted to the EU institutions on 23 December 1999.

The negotiating position was prepared in line with the EU instructions. It is divided into four main sections:

- A. General provisions / horizontal issues
- B. Common market organisations
- C. Rural development, forestry
- D. Veterinary and phyto-sanitary issues

The sections are further divided into chapters and sub-chapters containing:

- a short description of the current situation and the existing legislation in Slovenia,
- a description of the process of harmonisation with the acquis and the implementation capacity,
- a description of the institutional framework for implementing the acquis, and
- a timetable for adoption and implementation of regulations.



In the chapters where Slovenia requested transitional periods and derogations the requests are further explained and justified.

In the chapter on agriculture, Slovenia requested 8 transitional periods and 5 derogations. The transitional periods were requested for the common market organisation for milk (a transitional period for the distribution of quotas among individual producers and for the categories of drinking milk with regard to fat content), common market organisation for beef and common market organisation for sheep and goats (in both cases a transitional period for the distribution of premium rights among individual producers), in the field of zoo-technics (1) and in the field of phyto-sanitary issues (3). The derogations, which mean permanent exemption from the *acquis*, were requested in the common market organisation for wine (3), zoo-technics (1) and phyto-sanitary area (1).

Slovenia underlined in the negotiating position that under the acceptance of the *acquis* it also understands the acquisition of all the rights, including the budgetary inflows from the European Agricultural Guarantee and Guidance Fund. Slovenia was the only candidate which did not submit in the negotiating position the quantitative requirements for quotas and direct payments. It was assessed that it was too soon for that in view of the expected reform of the CAP and the EU position that the candidate countries are not eligible for direct payments.

The EU responded to the negotiating positions of the candidate countries in June 2000. In its Common Position, it asked for some additional clarifications related mostly to the implementation of the *acquis*. The EU turned down most of Slovenia's requirements and postponed its position regarding production quotas and direct payments to the later date. The process continued with the preparation of Slovenia's additional clarifications, which were to be submitted by the end of October 2000. It should be expected that the key questions related to agriculture would only be solved in the final phase of negotiations. The questions as to when the negotiations on this chapter will continue, when and if at all the enlargement will take place and whether Slovenia will be in the first round of accession remain opened.

In any case, the accession process continues and question of accession negotiations remains the key issue of the Slovenian agricultural policy. The following negotiation issues require special attention:

- the issue of administrative restrictions of production (to acquire sufficient level of production quotas and premium rights, with a special emphasis on the milk quota and the number of cattle, sheep and goat premiums);
- direct payments (to insist on their adoption);
- adjustment period (an immediate entry would be advantageous since, with good preparations, the benefits would predominate over costs);
- programmes of structural support (preparation of the programmes of direct payments for environmentally friendly agriculture and production in the less favoured areas, preparation for numerous other rural development programmes).

Regardless of the significance of negotiations, it still has to be stressed that the public generally expects too much of them. However, a bulk of the work will have to be done at home, by the thorough preparation of the agricultural policy reform, restructuring of agriculture and food industry and harmonisation of legislation. The room for manoeuvre for the protection of national interests will be very small. Many potential benefits of accession will depend on the structural policy which can only be implemented under the condition of the preparation of detailed programming and implementations structures.

#### ADJUSTMENT STEPS

Although the decision on Slovenia's accession to the European integration processes has been known for several years and the professional community has constantly been warned against the huge dimensions of integration process, there was not much progress achieved as regards adjustment by the spring 1998. The state administration only became aware of the complexity of accession process when preparing the documents for the first screenings. In 1998 and 1999, three key steps of adjustment were determined in the area of agricultural policy:

- The agricultural policy reform which adjusts the measures and increases the competitiveness of agriculture and food processing industry
- Harmonisation of legislation and
- Institutional adjustment.

Initial achievements have been recorded in all three areas. The agricultural policy reform is described above and the other two will be described below.

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- Institutional adjustment.

Initial achievements have been recorded in all three areas. The agricultural policy reform is described above and the other two will be described below.

Based on the reform principles, the Agriculture Act was prepared and adopted in June 2000. The act lays down the basic definitions of agriculture, the goals and measures of agricultural policy, and defines the institutions and agencies in charge of policy implementation and monitoring. It defines the new role of the state in developing agriculture and adjusting to EU requirements. The act will become the basic document underpinning the Slovenian agricultural policy during the period before the accession to the European Union. The next step will be market regulations (organisations) for individual agricultural products which would provide for a comparable implementation of the agricultural policy. Slovenia has been falling behind in the adoption of these regulations. In the preaccession period, the markets cannot be regulated only by copying the common market organisations. Some solutions are not sensible or cannot be implemented due to Slovenia's international obligations (in particular the WTO agreement). For some measures, the administrative capacity for their implementation is questionable (intervention measures).

Under the accession preparation package, the Agency for Agricultural Markets and Rural Development as a MAFF body was created in 1999, which will be as paying agency in charge of all institutional arrangements for implementation of the agricultural policy. The Agency is also responsible for the administration of all pre-accession support from the European Union, all domestic measures in the pre-accession period and at a later stage, for the transfer of EU policies into the national framework. The Agency is in charge of the information and administrative control system (IACS, harmonised with the EU). The policy decision-making process, the legislative functions and the programming tasks will remain at the MAFF. New institutions in the field of phyto-sanitary, seeds management, and food quality control as a MAFF bodies will be created.

Slovenia set as its goal to become internally ready for accession not later than by 31 December 2002. Considering this deadline, the adjustment in the area of agriculture has been too slow, despite considerable steps made in 1999 and 2000. Slovenia has also been lagging behind as regards institutional adjustment to the EU requirements, in particular in the agricultural policy. In the area of veterinary issues the situation is somewhat better. If Slovenia wants to adopt the Common Agricultural Policy, it has to establish special qualified supervisory, financial and information ser-

vices, institutions, ministry departments and special agencies. The reasons for lagging behind in the administrative-institutional area can largely be attributed to the lack of political will, too demanding procedures, lack of qualified staff and general lack of understanding of procedures and methods of operation of the European Union. The Common Agricultural Policy is an expanded and administratively highly complex system that would, according to our estimates, require full engagement of around 300-500 persons (depending on the organisation and quality of staff, interpolated from the size of public administrations in the present Member States). This number is several times higher than the number of persons engaged in the field of agriculture within the public administration before the accession process started. The need to increase public administration is not only an additional cost of accession but also a serious obstacle to it. Another obstacle is the lack of leading persons who would be qualified for managing and implementing the agricultural policy measures. Slovenia lacks is high level agricultural economists, which calls for a thorough restructuring also as regards agricultural curricula. Unfortunately, all these urgent changes have still not taken place because of the rigidity of education system in this field.

#### EXPECTED CONSEQUENCES OF SLOVENIA'S ACCESSION TO THE EU IN THE AREA OF AGRICULTURE

##### Research work as a support to agricultural policy

The discussions on potential consequences of Slovenia's accession to the European Union for agriculture have been quite lively from the very beginning. For quite some time, they were influenced by the experience of the neighbouring Austria upon its accession to the EU. Mostly, the discussions were generalised and poorly justified. This was probably one of the reasons why the Ministry of Agriculture, Forestry and Food, in co-operation with the Ministry of Science and Technology, opened relatively early a research project whose main goal was to examine the consequences of Slovenia's accession for agriculture. A relatively large group of agricultural economists started their first researches back in 1994 and published their first results in 1995. Since then, the research work has continued including, apart from the basic research, co-operation with experts and civil servants in the preparation of negotiating documents. The research group's main goals include:

- Systematic and integral monitoring of international integration processes important for the

Slovenian agriculture (EU, CEFTA, WTO), by descriptive and empirical estimations of advantages and disadvantages of individual integration processes.

- Estimation of the economic integration effects by further developing the empirical tools (quantitative models for assessing the consequences in the agricultural structures, markets, revenues and budget, costs of adjustment, dynamic effects, macroeconomic relations, assessment of costs and benefits of individual solutions in negotiations or in the preparation of accession programmes).
- Estimation of competitiveness and efficiency of production and processing, by a comparative analysis and other assessment methods.
- Elaboration of propositions and recommendations to the agricultural policy (strategic options in the agricultural policy bringing about the greatest economic benefits, negotiating positions, budgetary discussion).

In 1997, after completing the first part of the project, the research group published a comprehensive report covering all the above mentioned matters. The report was published in a book form (Erjavec, Rednak, Volk, 1997), to provide the wider public with access to the results of the research.

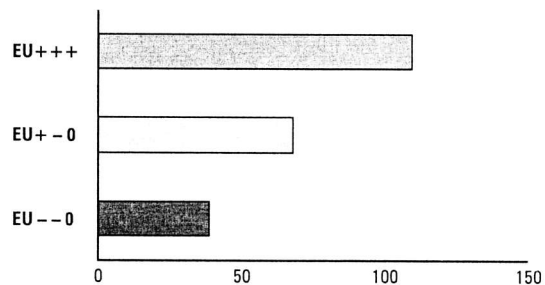
### The effect of Slovenia's accession to the EU on the agricultural income

The effects of Slovenia's accession on the agricultural income have been examined using a number of different models. In the first phase, a static deterministic economic model of agriculture was used (Rednak, 1997), whose results were re-examined by a static general equilibrium model. After 1997, developing of a partial equilibrium model started. The last results were estimated by the Agricultural Policy Analysis Simulator (APAS) with the Policy Analysis Matrix (PAM) (the data and methodology are described extensively in Stoforos et al. 2000; some additional explanation are also available in Mergos et al., 1999).

Although by using different models we obtained somewhat different results (different in details), the main message of all model calculations were the same.

The economic position of agriculture upon accession will improve only if Slovenia enters the EU as an equal Member State, with all the rights and obligations arising from the acquis, meaning that Slovenia would be -

Figure 1 Projected agricultural income in 2006 at aggregate level, comparable with baseline (1998 situation)



like the present Member States are - eligible for direct payments and the structural assistance from the EU funds (scenario EU+++). In the event of any discriminatory treatment of the new members - either by denying them a right to direct payments or by reducing the rights of structural assistance (scenario EU+-0), or in the event of extremely poor competitiveness of the whole agro-food chain upon accession (scenario EU--0), which is even realistically possible, the agricultural income in Slovenia would deteriorate significantly.

### Other advantages and disadvantages of accession for the Slovenian agriculture

Now that Slovenia is somewhere halfway through the negotiating process, it is possible to provide a clearer picture of advantages and disadvantages of accession for the Slovenian agriculture. Advantages are largely related to the use of budgetary funds from Brussels for financing the development of domestic agriculture. The accession will bring along a transfer of competencies concerning market and price policies, but this also means a transfer of costs of the CAP (direct payments, export refunds, intervention buying-in). In this way the considerable pressures on the national budget shall decrease; however, harmonising the national policy with the EU policy will require higher expenditure in the Slovenian budget. The fact is that structural measures are carried out on the national level, and that the EU budget only assists by co-financing them. The funds may increase from EUR 100 to 250 million (even double the level of the current agricultural budget) depending on the status of the new members upon accession and the changes of the CAP by the accession.

Taking on the principles of the CAP would provide Slovenia with an opportunity to define a suitable structural programme of rural development which would, through a comprehensive environmental programme, finance the non-economic functions of agriculture, and through modernisation programme restructure agriculture and food processing industry.

An opportunity will also be provided to that part of food-processing industry and the related agricultural activity that will be, upon accession, able to sell in the EU internal market and further develop its activities. With the accession, the national agricultural policy will on the one hand lose a great deal of its sovereignty, whereas the Slovenian farmers will obtain a perfectly consistent agricultural policy framework; however, with their influence being further diminished. In any case, with regard to the current CAP regulation, the situation for the agricultural producers will be more predictable and stable which is undoubtedly an important advantage of accession.

The disadvantages, and in particular the dangers related to accession, are numerous. Some of them are related to the above-mentioned potential discriminatory treatment of the new member states, in particular as regards direct payments. Further, substantial costs are related to the setting up of a proper administration network, numerous services which are required in small and large countries alike. However, the greatest dangers lie in the opening of the market for food-processing industry and indirectly also for agriculture. Will Slovenian food companies be able to sustain the strong price and non-price competition of the 400 million internal markets? This is the question that will be decisive for the success of the whole accession process of the agricultural sector. According to the Austrian and Finish experience, the level of budgetary inflows can slightly ease the effects of accession, but it can by no means prevent them or turn them to their own benefit.

## CONCLUSION

Slovenia's accession to the EU will bring about great changes in the Slovenian agriculture. Less competitive agriculture and food-processing industry will be faced with more efficient structures and more organised markets. Although the market will still be protected outwards, the borders within the internal market will be eliminated. Many new competitors will appear

equally and without restrictions in the Slovenian market. But at the same time, the borders will also open for the Slovenian goods. The volume of trade will undoubtedly increase, and so will the variety of offer, but the pressures on the levelling of prices will be very strong. The agricultural market will change overnight from the market with the surplus demand to the market with surplus supply. Changed market conditions and a different agricultural policy will affect technological development and social-economic structure, as well as the income position of agriculture. The process of Slovenia's accession to the EU has been raising the need for restructuring and increasing the capacity of the whole sector.

The Slovenian agriculture does not represent a threat (burden) to the existing or reformed CAP and therefore has certain advantages in future EU negotiations: comparability of price levels, a relatively comparable system of agricultural policy measures and, above all, the fact that Slovenia is a net importer of food. The structural and natural conditions of the Slovenian agricultural production and policies differ a lot from the other CEECs.

By the final decision of the Berlin Summit in March 1999 on the scope and contents of the CAP in the 2000-2006 financial perspective, the EU withdrew eligibility for direct payments to the candidate countries. The reason lies in lower current price level as well as the negative social and macroeconomic effects in the candidate countries. Higher prices are also expected to be a stimulus to the growth of agricultural production within the new members, and this could consequently contribute to serious additional budget pressures on the CAP. The estimated costs of enlargement could be made up mainly by the direct payments. They are estimated to be relatively high, which obviously asks for a thorough reform of the existing CAP or, at least, for a special status of the new candidates after accession. Therefore, it can be expected that the questions about direct payments will be on the top of the political agenda in the negotiation process of the enlargement of the EU.

Due too special (it is justifiable to say discriminatory) treatment of new candidates the EU enlargement will be politically very difficult. The Slovenian negotiating strategy as well as the whole transitional procedure should be adapted accordingly. Is the correction of agricultural policy reform proposal necessary? In the case of successful legislation adjustment and institu-

tional qualification, Slovenia will fulfil all conditions to adopt the whole *acquis* of EU for agriculture, and also acquire direct payments. With prices at the same or higher level than in the EU, Slovenia should not be treated equally as other candidates with much lower prices. Since lower price level will be enforced at the date of accession, producer's income losses must be compensated for on at least temporary bases. *Acquis* enables receiving of these funds directly from Brussels. If the conditions for the Slovenian producers are to become equal to those for the current Member States by postponing of compensatory payments is politically highly discriminative.

An important difficulty is expected to arise due to in the fact that the EU is not likely to make exceptions for Slovenia in the treatment of new candidates during negotiation. However, direct payments are not important for Slovenia only as an argument of protection of domestic agriculture, but also from viewpoint of balanced budget account with the EU common purse.

During the pre-accession period all efforts have to be undertaken to strengthen arguments for realisation of compensation payments. Especially important is also the institutional development, with formation of a paying agency and reestablishment of comparable mechanisms proposed by the agricultural policy reform. Some other steps of adjustment also need to be considered. Agenda 2000 is, therefore, the touchstone for the Slovenian agricultural policy. It determines negotiation frames as well as the domestic adjustment measures. Agriculture has to adapt to and to operate in the common market conditions. Candidate countries should not neglect structural and environmental policies on the account of politically questionable direct payments.

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## Pridruživanje Europskoj uniji na području poljoprivrede - slovensko iskustvo

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### SAŽETAK

U radu je prikazano slovensko iskustvo s novim procesom širenja Europske unije (EU), vezano uz područje poljoprivrede. Postupak koji prethodi pridruživanju obuhvaća usklađivanje zakonodavstva, izgradnju institucija, prilagođavanje poljoprivredne politike, pregovore o pridruživanju te usklađivanje i restrukturiranje poljoprivrede i prehrambene industrije prema uvjetima na unutrašnjem tržištu EU.

Razvoj poljoprivrede i poljoprivredna politika u Sloveniji znatno se razlikuje od stanja u EU. Stoga Slovenija mora provesti temeljitu reformu poljoprivredne politike, prvenstveno uvođenjem izravnih plaćanja i drugih komparativnih mehanizama Zajedničke poljoprivredne politike (Common Agricultural Policy, CAP). Reformi će pomoći novi Zakon o poljoprivredi kojim su osigurane pretpostavke za provedbu usporedive poljoprivredne politike. Ured za poljoprivredno tržište i razvoj sela ustanovljen je kao organizacija odgovorna za provedbu mjera predviđenih CAP-om.

Tijekom procesa pregovaranja Slovenija je obavila dvogodišnje snimanje stanja zakonodavstva i dostavila svoja pregovaračka stajališta. U stajalištima je iskazana spremnost za usvajanje pravnog poretka EU (acquis), uz zahtjev za manjim trajnim ili privremenim odstupanjima od acquisa, te status jednak statusu današnjih zemalja članica kada je riječ o dodjeli proračunskih sredstava (posebno izravnih plaćanja). Reforme i proces pregovaranja bile su praćene agroekonomskim istraživanjima, uz usporednu analizu poljoprivrede i poljoprivredne politike, te su rađene procjene posljedica pridruživanja temeljene na modelima i stanju grane. Pridruživanje bi za slovensku poljoprivredu bilo povoljno tek kada bi, što je politički manje realno, Slovenija imala tretman jednak današnjim zemljama članicama i kada bi ostvarila jednaku razinu konkurentnosti poljoprivrede i prehrambene industrije.

Ključne riječi: poljoprivreda, Europska unija, pregovori, Slovenija

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